# PRIVATIZATION OF ARMY LODGING (PAL)

## LDMP Process
## PAL INDUSTRY FORUM


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# OUTLINE

- **Partnership**
- **LDMP -- Lodging Development & Management Plan**
- **PAL Program -- Financial Challenges**
- **Capital Markets**

# PARTNERSHIP

- **Ultimately, this will not be a Government Contracting Relationship**
- **This is being approached as a Limited Liability Corporation and the Army is seeking a partner**
- **The Army's partner will be the Managing Partner**

# THE LDMP PROCESS

- **…where the *true* partnership behavior happens**
- **…where *needs* are balanced with financial feasibility for all partners**
- **Anticipate that this process will take six months**

# LDMP -- FEES & RETURN ON EQUITY

**Fees & Return are negotiated before the LDMP is submitted to the Department of the Army for review**

- **The Return on Equity**
- **Fees**
  - **Development**
  - **Construction**
  - **Management**
  - **Franchise…if appropriate**

# LDMP -- NEW CONSTRUCTION AND RENOVATION SCOPES

- **The Managing Partner will *guarantee a scope* during the LDMP initial development period**
- **This guaranteed scope is critical to the Department of the Army and to Congress**
- **The Construction and Renovation timeline will be advanced to 35% design and must match the cash outlays in the financial pro forma**

# LDMP -- FINANCIAL PRO FORMA / TAXES

- **Pro Forma**
  - **A 50-year financial pro forma is critical to the LDMP**
  - **The operating pro forma must be integrated with the debt pro forma and the development / construction pro forma**
  - **In early RCI projects, these plans did not “foot”**
- **Taxes**
  - **The *Managing Partner is responsible for resolving tax issues***

# LDMP -- FINANCING

- **The *Managing Partner* DOES NOT bring the financing to the Army partner**
- **There will be a debt competition similar to RCI**
- **The Army and the Managing Partner will jointly work with the selected financial institution**

# LDMP -- LENDING NEGOTIATIONS

## At a minimum, terms and conditions will include:

- Base Closure Guarantee NOT
- Security / Trust Estate
- Default provisions
- Cure Rights
- Recourse
- Operational Prepayment Terms
- Additional Debt
- Ratings
- Bond Insurance Required
- Reserve Requirements
- Debt Service Reserve Requirement
- Minimum Debt Service Coverage
- Underwriting Criteria
- DSC Triggers and Cash Traps
- Representations of the Issuer
- Major Conditions Precedent to Closing

# PAL PROGRAM -- FINANCIAL CHALLENGES

- **Occupancy**
  - **USA's 2003: 59.2%.**
  - **PAL: CONUS / Hawaii / Alaska 2003: 76.3%**
- **ADR -- Average Daily Rate**
  - **USA's 2003: $83.76**
  - **PAL: CONUS / Hawaii / Alaska 2003: $34.91**
- **RevPAR**
  - **USA's 2003: $49.69**
  - **PAL: CONUS / Hawaii / Alaska 2003: $26.64**

# PAL PROGRAM -- FINANCIAL CHALLENGES

- **PAL: CONUS / Hawaii / Alaska 2003**

  **RevPAR $26.64 CostPAR $17.14**

  **Remaining $ 9.50**

  **for capital improvements**

- **The $9.50 is insufficient to meet the current requirements**
- **RevPAR currently comes from room rates set at roughly 50% of government per diem**
- **Going forward, the Army believes 65% to 75% of government per diem will sustain the capital investment.**

# PAL PROGRAM -- FINANCIAL CHALLENGES

- **Going forward, the Army believes 65% to 75% of per diem will sustain the capital investment**

**Current**

**50% per diem => RevPAR = $26.64**

**Possible Futures**

**65% of per diem => RevPAR = $34.63**

**75% of per diem => RevPAR = $39.96**

- **Your proposals should suggest room rates (as a percent of per diem) that will upgrade and sustain facilities for the long term**

# PAL PROGRAM -- FINANCIAL CHALLENGES

- **The POM…the Program Objective memorandum … and the Budget**
- **Most of the $200 million in Lodging Revenues comes from appropriated travel accounts for training and for *change of station***
  - **This money flows from those accounts through the soldiers to Lodging**
  - **$200 million is the lodging revenue at 50% of per diem**
  - **Roughly $270 million is the revenue at 75% of per diem**
- **Propose a room rate as a percent of per diem that will sustain a great partnership and minimize the cost to Army and Army's POM / Budget**

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